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MONETARY SYSTEM

OF

GREAT BRITAIN:

ITS

HISTORY, DEFETCS, AND PROPOSED REMEDIAL MEASURES,

CONCISELY EXPLAINED

FOR THE USE OF GENERAL READERS.

BY JAMES MILLER.

A question, upon the just settlement of which the happiness and prosperity of the nation essentially depends.

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THE MONETARY SYSTEM.

FEW questions have undergone more discussion than the *Monetary System*, and few subjects seem to be less understood. But one thing, it is believed, a vast majority in this country have, by the dearth and dearness of Money, become convinced of—that we have not yet, with all our boasted economico-political science, arrived at a sound and judicious practical solution of the question of the Currency.

The writer has, therefore, resolved to offer his modicum towards the enlightenment, particularly of his co-electors, upon this important question, in a short Essay, which he hopes, notwithstanding the somewhat abstruse nature of the subject, to be able to make generally intelligible.

If Money, as it has been too truly said, is the master of every man, it must be important that the inhabitants of the United Kingdom should, if possible, understand its laws, and so be able to judge how the questions regarding the Currency, which are now agitating and dividing the opinions of the country, should be settled.

It seems unnecessary, for the object in view, to trace the origin or nature of Money; or to explain the history of the Currency legislation of this country before the commencement of the last war, in 1793, which led to that great innovation upon our Monetary System—the suspension of cash payments by the Bank of England, in 1797, and the issue of L.1 notes.

Previous to that event, Bank of England notes were payable on demand, in gold, or in silver; as also the notes of all other banks, which latter still continued, after 1797, to be payable in gold or in Bank of England notes, which then became a legal tender.

The suspension of cash payments took place, by an Order in Council, February 26, 1797, and was continued by a subsequent Act of Parliament.

This measure not only prevented what was then imminent, a National Bankruptcy, but enabled the country gloriously to carry on, and surmount a war of unexampled length and magnitude; and, under its operation, manufactures, agriculture, and commerce, prospered, in a degree unexampled in the previous history of Great Britain, or of the world.

It is enough to state, that, although our exports were excluded from almost every port in Europe, the greater part of which was in a belligerent state, and that commerce was impeded, and exposed to the greatest risks, from rival fleets and hostile cruisers infesting the seas—how different from our present position—yet the export trade, internal prosperity, and

capital of the country, rapidly increased. The exports, which amounted to only L.28,917,010, in 1797, had increased to L.57,420,487, in 1816, the year after the conclusion of the war—and when resolutions to resume cash payments were passed in Parliament; while, during the former year, the imports were only L.21,013,957, and, during the latter year, L.31,822,053. It would be superfluous to multiply statistics to prove the progress of the nation, during the suspension of cash payments. It is a great historical fact, which warrants the inference that, even an inconvertible Paper Currency, which enabled the country to contend successfully against great and unexampled difficulties, and, at the same time, to prosper, must, at least, have been suited for the exigencies of the times.

Mr Macaulay, in the continuation of his great historical work, recently published, observes:—"The perfect lawgiver is a just temper between the mere man of theory, who can see nothing but general principles, and the mere man of business, who can see nothing but particular circumstances. Of lawgivers, in whom the speculative element has prevailed, to the exclusion of the practical, the world has, during the last eighty years, been singularly fruitful."

In nothing, perhaps, has this been more strikingly exemplified, than in our Currency legislation, in which the desire to mould the laws to a complete uniformity with economico-political principles—or, rather to go beyond these principles in following out the Bullionist theory—has been singularly unsuccessful and unfortunate.

It requires but little historical knowledge and sagacity to perceive, that, had Mr Pitt been a rigid Bullionist, embued with the speculative element, to the exclusion of the practical, that stroke of bold, consummate statesmanship, which enabled Great Britain to weather the political storm, which raged without almost an intermission from 1793 to 1815, and when she stood for a while almost alone, it may be said, "against a world in arms," would not have been made, and that the country must then have sunk into bankruptcy, and lost her proud prestige among nations.

A scheme, therefore, from which our ancestors derived such signal benefits, and which saved the country in its day of darkness and trial, though it may have been deemed necessary to supersede it, upon the principles of political economy, and altered circumstances, seems to have strong claims, at least, upon the sympathy and lenient judgment of their posterity.

But, though the suspension of cash payments, under the exigencies of the period referred to, is thus appreciated, it is admitted that there appear to be good and sufficient reasons, why, if possible, the circulating medium, if a Paper Currency, should conventionally be based on, or made payable in, gold, or some other precious metal, which forms the most portable and generally recognised measure of value prevailing throughout the civilised world. If this is not the case, then, whenever bank notes become depreciated, as was the case in this country for many years previous to the resumption of cash payments in 1819, from the unusual drain of gold occasioned by the war, the export and import merchants are placed under a certain disadvantage in purchasing Gold or Foreign Bills for remittances to meet the balances of trade. But, the objection is probably more plausibly theoretic than formidably practical,

as merchants, knowing the relative values of the prevailing Currencies in different countries, can always shape their transactions accordingly. For example, if under a Paper Currency, such as prevailed from 1797 to 1819, merchants knew they must pay for Foreign Bills, or Gold, at the rate of twenty-six shillings for every guinea, they would just take care to make the country pay at the rate of twenty-six shillings for every guinea's worth of goods imported; and even this disadvantage would not be experienced, if a Paper Currency were so regulated as to be sufficient for, and not increased beyond, the legitimate requirements of the internal trade and transactions of the country.

It is believed, however, that the general opinion of the country now fully concurs with that expressed in a "REPORT of a Committee of the HOUSE OF LORDS, appointed Session 1847-8, to inquire into the causes of the distress which has for some time prevailed among the commercial classes, and how far it has been affected by the laws for regulating the issue of bank notes payable on demand," and which, among other most important matter, bears, that "The Committee feel, in common with every witness examined, the duty and obligation of maintaining at all times the practical convertibility of the bank note." That point, therefore, may now be held to be firmly settled, unless a case of overwhelming necessity were again to occur.

But, whilst admitting and advocating the duty of maintaining the convertibility of the bank note, it is considered proper, in endeavouring to give a candid review of our Currency legislation, to record a protest against the unjust exercise of that principle in passing the Act of 1819, for the resumption of cash payments, without introducing equitable provisions for preserving the relations of debtor and creditor in the same category they were in previous to the Act; and also, the relation between the holders of Government Stock and the tax-payers.

If the whole transactions of this great empire, which had progressed, expanded, and flourished, beyond all precedent in the annals of nations, under an inconvertible Paper Currency, and which we will assume to have stood, previous to 1819, as about of the value of twenty-six shillings to the guinea, was it not an act of unrighteous statesmanship to pass that Act, by which virtually all debts due by individuals and the nation, were increased fully one-third in value, by which the rich man was made richer, and the poor man poorer, and the tax-payer obliged to pay taxes in an enhanced Currency, which was just equivalent to increasing the debt of each Government creditor, say, thirty per cent.

To have made the measure equitably just, the Act should have provided that Government Stock purchased, and all debts contracted in the previously legal, but depreciated inconvertible Paper Currency, should be reduced say thirty per cent. This was indispensable to maintain upon an equitable footing the previously existing relation between debtor and creditor, and there is no doubt that a vast amount of injustice and distress resulted from neglecting such an equitable adjustment.

Besides, however, the objections which have been stated to the Act of 1819, which are now irremediable, as the great majority of its victims, as well as those who originated, and were benefited by that measure, are now gone to their graves, and removed beyond its operation, it was also essentially defective, inasmuch as while it was made obligatory that every note issued, and forming part of the circulation, should be payable in

gold on demand, no restriction was placed upon the extent to which notes might be issued, and no precautions taken for the safety of the public for their repayment, though it seems to be as much the duty of Government to protect the lieges against an unsafe Paper Currency, as against forged and false or spurious coin.

Accordingly, in 1825, a very great number of private bankers in England and Wales became insolvent, from having issued notes and contracted obligations, to a greater amount than they possessed available capital to enable them to meet; and a somewhat similar convulsion occurred again in 1837, on both which occasions the public suffered severe loss and distress.

In consequence of these crises, and with a view of preventing the recurrence of such catastrophes, and perfecting our Monetary System, two additional Acts were passed by Parliament—one in 1844, extending to England and Wales; and the other, in 1845, applicable to Scotland and Ireland.

There were several intermediate Bills (one of which, passed in 1829, abolishing the circulation of notes under L.5 in value in England), but which it seems unnecessary here particularly to notice.

The principal features of the Bills of 1844 and 1845 may be stated to be as follows:—

By the first Bill, generally called the Bank Charter Act, the Bank of England was authorised to issue notes to the amount of L.14,000,000, principally upon the security of a debt due by Government to the Bank, and for all issues to be made beyond that amount, it was enacted that the Bank should hold in the issue department gold coin, or gold and silver Bullion of equal amount, but that the silver should not exceed one-fourth of the gold coin and Bullion.

The other banks and private bankers, in England and Wales, were allowed, by the Act, to continue to issue notes to the amount of their average circulation for the year prior to 27th April 1844.

By the second bill of 1845, it is enacted, that the Scottish and Irish banks should be restricted to an issue of notes not exceeding their average circulation for the year preceding 1st May 1845, except in so far as they might choose to hold gold or silver coin in their possession for over-issues in the same proportion as the Bank of England.

For the issues of the Bank of England, it thus appears security was required to the extent of L.14,000,000; but its power to issue notes beyond that amount, to meet the requirements of the community, was made to depend upon the amount of gold and silver in possession of the Bank in the banking department; and thus whenever a drain of Bullion took place, a contraction of the note circulation of the Bank became unavoidable.

From all the other banks and bankers, no security whatever was required, except that the Scottish and Irish banks were to hold gold to the extent of their over-issues.

Now, it is submitted that this scheme was anomalous and inadequate to accomplish the objects intended, and that, as such, it has proved most detrimental to the best interests of the country.

It was anomalous and unfair, inasmuch as the English country banks are restricted to an issue of notes to the extent of their average circulation, as that happened to be for the year prior to 27th April

1844, and the Scotch and Irish Banks to the extent of their average circulation for the year preceding 1st May 1845, without any power of expansion to meet the banking accommodation required in their respective localities, except in the case of the Scotch and Irish banks, upon holding gold uselessly in their coffers against over-issues. Inasmuch as the average authorized circulation was allowed to be made, altogether irrespective of their responsibility and sufficiency to meet their promises to pay; while a plan which was proposed to allow banks to issue notes to such extent as they might find and judge in their discretion to be necessary, upon adequate security, was ignored; and, inasmuch, as the Scottish banks, with a paid up capital at the passing of the Act in 1845 of L.11,240,000, were restricted to an authorized circulation of L.3,087,209, while all the banks of Ireland are allowed to issue notes exceeding their paid up capital. The Provincial Bank of Ireland, and the National Bank of Ireland, here cited as examples, with a paid up capital amounting to L.850,000, are authorized to issue notes to the amount of L.1,689,424; and the Joint Stock Banks, and private bankers in England—*the latter without any paid up capital at all*—are authorized to issue notes to the amount of L.5,011,097.

But, particularly, with respect to the great national establishment of the Bank of England, the operation of the Act of 1844 has not only not fulfilled the expectations of its projectors, but produced consequences the most injurious.

In place of turning out a scheme which the Bullionists flattered themselves was to place the banking business of the country on a safe and sound practical footing, founded on certain and irrevocable principles, there is overwhelming evidence to prove, that it has aggravated, if it has not actually produced the very evils it was intended to cure—in particular, the monetary convulsion of 1847, by which credit was contracted, property depreciated, and wide spread distress and ruin occasioned. The report before referred to states:—"If it was contemplated, that by the Act 1844, the number and extent of commercial failures would have been lessened, the deplorable narrative of the Governor of the Bank recording the failure of thirty-three houses, comparatively in large businesses, in *London alone* to the amount of L.8,129,000, is a conclusive reply." This catastrophe, accordingly, led to lengthened Parliamentary investigation on the subject; and, in consequence, a most valuable Report was obtained from a Committee appointed by the House of Lords, forming with the Minutes of Evidence and Appendix, a formidable Blue Book of 535 large folio pages, from which the writer will cite in the sequel (along with other valuable information) such portions as he considers particularly to bear on the subject under discussion, and which, as containing the conclusions arrived at, after a patient and laborious investigation and consideration by the noble Lords who formed the Committee, and the evidence upon oath, of high financial authorities, must be entitled to the very highest consideration.

Of the Act 1844, generally, it was ironically observed by the late Lord Ashburton, one of the very highest financial authorities of the present century, "that it deprived the Directors of the Bank of England of the power of exercising any opinion, the rigid Parliamentary machine was to think and act for them:" and the Report, p. 44, says of it—"An

attempt to enforce by law, under all circumstances, one fixed and inflexible rule for the management of a National Bank of Issue seems inconsistent with the best written authorities, and with the general principles of economical science, as well as with the testimony of many witnesses of practical knowledge and experience."

With these preliminary observations, the writer will now endeavour, in detail, to state in distinct propositions the most palpable defects of the Act, 1844, in its restrictive conditions—which have placed Cobbett's Old Lady, of Threadneedle Street, as one of the witnesses before the Lords' Committee, aptly enough remarked, in "an iron cage"—and to support these propositions by adequate authorities and illustrations.

The first proposition, then, respectfully submitted is:—

That the Act, 1844, has occasioned fluctuations in the rate of interest, greatly beyond what had formerly prevailed, and highly detrimental to the trade and prosperity of the country.

The Report states, p. 46—"If the power of obtaining banking accommodation on moderate terms, were considered to be promoted by the Act of 1844, it cannot be said that this important object has been attained, since it appears in evidence, that in 1847, in addition to an interest of nine or ten per cent., a commission was also frequently paid, raising the charge to ten, twenty, or thirty per cent., according to the time which bills had to run."

In the evidence appended to the Report, p. 214—G. C. Glyn, Esq., M.P., a leading London banker, gives evidence to the same effect:—"That a very low rate of interest leads to an undue and imprudent speculation, and a very high rate of interest leads to a disastrous pressure upon all classes, it is very important to maintain as much as possible, an equable rate of interest in the country."

A. H. Wyllie, Esq., merchant, Liverpool, p. 245—"Do you think that the trade of this country can permanently thrive under a state of the monetary circulation, which produces fluctuations in the interest of money, from two per cent at one time, up to ten per cent. at another? Are not fluctuations of that description destructive of sound trade in any country?"

"Decidedly so?"

That the system followed by the Bank of England since 1844, contrasts most unfavourably and disreputably for this country with the practice of the Bank of France.

The Report bears, p. 33—"The earlier practice of the Bank of England had been to discount at a rate nearly fixed and uniform. Prior to September 1844, the bank never reduced the interest below 4 per cent., and it was never higher than 5 per cent., except some months in 1839, when it was raised to six per cent. The effect was to produce steadiness, and diminish fluctuation. This system was abandoned in September 1844, after the passing of the Act, pages 37 and 38—The Governor of the Bank of England admitted that this latter practice of the Bank contrasted unfavourably with the system pursued by the Bank of France,

which never had raised the rate of interest above five per cent., and that the rate charged in England must have been prejudicial. Lord Ashburton stated, "The transactions of the Bank of France may be said to have varied very little indeed, from the limits of four to five per cent., they never exceeded five, and they have hardly ever been under four. Under all the circumstances, they have kept that equitable rate of interest for their discounts, and for their general transactions." The Committee add,—"The disturbing causes were in a greater or less degree common to the two countries, but no restrictions analagous to those of the Act 1844, cramped the operations of the Bank of France; and the contrast between the rate of discount, and the interest for Money was such as has been already stated."

That the high rate of interest in 1847, *which would have been formerly usurious*, and the difficulty, often impossibility, of merchants getting their bills discounted, occasioned from a contraction of the Currency, by the restrictive conditions of the Act 1844, have been highly detrimental to the general trade and prosperity of the country, and ruinous to great numbers of the mercantile and industrious classes.

On this head the following excerpts from the evidence are considered conclusive:—

William Brown, Esq., M.P., extensively connected with business in Lancashire, p. 268. "There are many cases, some of which came under my own knowledge, where houses of great responsibility and respectability, being disappointed at those local banks in getting those discounts which they had been accustomed to get in order to meet their engagements, have really made sacrifices which have brought many of them almost to the verge of bankruptcy, by selling produce of various kinds at prices which they could not replace it in the markets from which it is produced."

James Lister, Esq., Manager of the Union Bank, Liverpool, p. 285. "That persons were obliged to sell their goods at a ruinous price for want of accommodation. . . . A person who was perfectly solvent, a man who could pay sixty shillings in the pound, would sacrifice twenty or thirty per cent. without hesitation upon his engagements to prevent dishonour upon his name; but he would not repeat the operation, he would drop the business."

J. C. Wright, Esq., for thirty years a banker at Nottingham, p. 326. "You said that in former years the industry of the British workman replaced capital. How did the Act of 1844 in any way cripple the energy and industry of British workmen last year, to replace the capital which went to purchase food?"

"They could not execute orders. In many cases they could not get their bills discounted. I speak from experience. Customers used to come for increased assistance, and I said, 'No, the law forbids me now. You must turn out your hands. I cannot assist you any longer under the law of 1844.'" . . . .

P. 329, "Has there not been great loss of capital and property among manufacturers and dealers in your neighbourhood?"

"They are in a state of poverty generally. There is great distress in the country certainly among the lower classes, many hands have been turned out."

"And a great reduction in the value of all properties and all securities?"

"A very great reduction."

S. Gurney, Esq., p. 136, thus quotes the language held out by the directors of the Bank of England, to applicants for accommodation:—

"Gentlemen, there is this act staring in our face; we cannot do what we know to be right."

Sir Archibald Alison, Sheriff of the County of Lanark, p. 417. "I have observed during the whole time I have been in Lanarkshire, that any rise in the rate of discount of the Bank of England has been immediately, or at least shortly, followed by an increase both of crime and of civil suits, and, if it continues long, of mortality and typhus fever. So much so, that, as I am an official member of the Prison Board, and of most of the charities, I have always made it a rule to say to the gentlemen of those Boards, when a rise in the rate of discounts takes place, 'Gentlemen, the Bank of England have raised their discounts, you had better immediately take measures for enlarging the prison accommodation, and for extending the infirmaries and poor-houses; and they have since admitted to me, that my prognostications were too well founded, for we have been obliged to make a proportionate increase a year or two after the Bank of England have raised the rates of discount."

That the Bullionist theory would appear to have raised indistinct and erroneous conceptions regarding Capital and Currency, which led to the enactments of 1844 and 1845, for securing a paper circulation, to expand or contract according to the increase or decrease of Bullion, with the view of maintaining the absolute convertibility of the note.

S. Jones Loyd, Esq., now Lord Overstone (who with the late Sir Robert Peel were the great exponents of the Bullionist scheme), when examined before the Lords' Committee stated, p. 172, "That rise in the rate of interest" (speaking of the year 1847), "it must be clearly understood was the unavoidable consequence of the great diminution which the capital of the country applicable to commercial purposes had sustained, and which it was beyond the power of any man to prevent, who had not the control of the seasons."

The converse opinion, and it is submitted the sound one, is given by another witness, J. C. Wright, Esq., p. 326.

"Do you consider that the paper circulation of the country was insufficient last year?

"I think it was declared by many people, and, I think, by the Chancellor of the Exchequer among others, that during the panic there was not a want of circulation, but a want of capital. Now, I must say, humbly, that I differ from that. Capital had not perished, but there was a want of circulation to represent that capital."

It must be essential then, with the view of placing our Monetary System upon a sound basis, to arrive at a right understanding of what truly constitutes capital, and what really forms Currency.

What then is capital? The anti-bullionists say, it is not Money, but

Money's worth. It is all that is useful and beneficial to mankind. It consists in the natural gifts of Providence, and the accumulation of men's labour. Of the soil and its products, including its minerals, of buildings and all constructions useful to man, of manufactures, shipping, agricultural produce, stock, etc., etc.,—of all real and personal property. In short, of all that contributes to the convenience, comfort, and luxury of life. That these must constitute the true wealth or capital of every country, and that gold can only form a part of that wealth or capital, whether indigenous or imported. It may, indeed, be made to form, in whole or in part, the Currency or circulating medium of a country by being coined, and having the national stamp impressed upon it. But it still also forms part of its capital or wealth, from being of acknowledged value not only within but without the kingdom, and generally throughout the world, which Paper Currency is not. It is, therefore, of all species of wealth the best means of enabling peoples to carry on barter, and to settle with each other, the balances of trade. Consequently, it is the best measure of the standard of value, and must continue to be so, while the cost of its production, does not much vary from what it is at present, and has hitherto been, for, it is obvious, were it to become to be as easily got as copper or iron, and as plentiful, it would be unfitted for being the great international medium of barter and exchange. Gold is, therefore, appropriately and necessarily the Currency of foreign transactions, to which the anti-bullionists say it should be confined, while they hold that bank notes are peculiarly and appropriately adapted for the internal Currency of the kingdom, from the economy and facility with which they may be made available for its transactions. People cannot carry bulky capital in their pockets. Some light portable representative of its value is therefore necessary, and nothing can be so convenient and economical as bank notes or bills. Gold is comparatively inconvenient and inappropriate, and is besides open to the serious objection of being liable to very considerable depreciation in the using.

Mr Wright, p. 317, says, "At the time when sovereigns were called in, people cried out very much; and I recollect that the loss in light gold fell especially upon the poorer classes, the shopkeepers making them pay 1s. and 1s. 6d. for light gold in some cases, and even charging where it was not light. . . . . This wear and tear and loss to the public, especially the poorer classes, on whom it chiefly falls, I consider an additional argument for the proposed substitution of L.1 notes."

Mr M'Culloch, also, a most competent authority, stated many years ago, in his "Commercial Dictionary," when trade was not nearly so extensive as at present, that a Currency of sixty millions would be required for this country; and that, if this were to be formed entirely of gold, the loss in tear and wear of coin would be upwards of three millions annually.

A Paper Currency, therefore, under judicious management, admitting of expansion and contraction to meet the legitimate requirements of the country, is considered to be by far the most beneficial for the community, with this precaution, that, as it is the duty of the government to protect the lieges against the circulation of spurious coin, it is equally so to require adequate security from Banks of Issue, which might be promptly realised at any time, for redeeming their notes should they fail to fulfil their promises to pay. It is submitted that the Bullionist as-

sumption that the capital of the country is deficient is most erroneous, though it has been frequently subjected to severe fluctuations and depreciation, most unnecessarily aggravated by the practical fallacies of the Bullionist theory; and it is denied, because we happen occasionally to have a more than usually deficient crop, or an expensive war, and must expect to lose our gold, that we must as we do so, cease to issue notes and as the latter are withdrawn, so we must curtail our productions, and put a stop to the general industry of the country.

The capital of Great Britain has been variously estimated at from five to eight thousand millions of pounds; and the returns and assessments for the Property and Income-Tax show that it is immense.[1] Should, then, a temporary efflux of ten, fifteen, or twenty millions of gold, throw the country into convulsions, and threaten a national bankruptcy, if we possessed a proper Monetary System? To put a parallel case,—Should an individual possessed of, say, L.10,000, be subjected to difficulty and

[1] The above general estimate of the capital of the country seems to be fully supported by data furnished by one of the highest statistical authorities of the age. Mr Porter, in his *Progress of the Nation*, states, page 613:—The assessments to the Income-Tax upon real property in Great Britain, in 1803, were made on an annual value, or rental, of L.38,681,394, which, at twenty-five years' purchase, represented a *capital* of L.967,284,850. Page 615.—In bringing forward his proposal for an Income-Tax, in 1842, Sir Robert Peel assumed the value of real property in Great Britain, as follows:—

Rent of Land, ...	L.33,400,000
Rent of Houses, ...	25,000,000
Tithes, Mines, etc., ...	8,400,000
	L.72,800,000

which sum, at twenty-five years' purchase, is equal to a *capital* of L.1,820,000,000.

But, the actual assessment of real property for the Tax following upon this Act, for the year ending 5th April 1843, amounted to L.95,284,497; which, estimated at twenty-five years' purchase, amounted to L.2,382,12,425. Thus showing that, between 1803 and 1843, the capital of Great Britain, *arising from real property*, had increased the enormous sum of L.1,414,827,575. Page 608.—The personal property in Great Britain, in 1814, is estimated, upon data furnished by the produce of the legacy-duty, as amounting to L.1,100,000; and, in 1845, to L.2,200,000. The difference between these two sums making up, during that period, an equally extraordinary increase of 1000 millions upon the personal property of the kingdom.

If, then, there is added to these estimates of real and personal property in Great Britain properties of less value than L.150, exempted in 1843, from Property-Tax, and the value of all real and personal property in Ireland, it would reasonably appear that the aggregate value of real and personal property in the United Kingdom, may be stated at 5000 millions in 1843; and, that, if we assume the value to have *since* progressively increased as it did from 1803 to 1843, which is most probably under the mark, the value of real and personal property in the United Kingdom, in 1856, cannot be greatly over estimated at the highest figure stated above, viz., eight thousand millions.

It is proper to explain, that, it is believed, a large amount of personal property is never confirmed, and that the legacy and succession stamp duties are sometimes evaded by gifts and donations before death; also, that there is no value put upon the roads and other public improvements of the kingdom, upon which vast sums have been expended, so that the capital may, in one view, be held even under estimated; but, on the other hand, the personal property is probably factitiously raised by including the public stocks as part of the capital of the kingdom. On the whole, therefore, it is considered, the estimates may be held as approximating sufficiently near the truth for any discussion such as the present.

There is no confusion, it may be added, in Mr Porter's ideas regarding Currency and Capital. The first he discussed in a chapter headed Currency, devoted to explain the system of our "Currency and the Operation of Banking;" under the section Interchange. Capital, again, he treats of under the entirely different section of Accumulation, under a chapter tituled, "Increase of Personal and Real Property," which he unequivocally views in common, it is presumed, with all sound political economists, as the Capital of the Nation, while, on the other hand, he holds Currency to be strictly confined to the circulating medium.

inconvenience, if he was not a simpleton, though he lost L.20 of his income or of his capital? and the loss for the nation, in the case supposed, could hardly be so much. Is there any good reason, then, why an individual, a corporation, or a nation, possessed of ample capital and credit, should be differently situated? or that Great Britain, with a capital which the skill and industry of the community is daily increasing, and with an export trade, which the *Times* admits is still annually leaving, as it has done for a century past, large balances in favour of the country, in its trade with *foreign* nations, and which must, therefore, necessarily bring us a large average influx of gold, should be subjected to Monetary panics, and threatened with national bankruptcy, from a temporary abstraction of ten or twenty millions of gold.

Mr Wright's evidence may be quoted as confirmatory of the above argument, though it appears hardly to be necessary, p. 327.

"Your opinion is, that when there is an export of gold to the amount of ten or twelve millions, as may have been the case in the last year, it is advisable for the bank so to increase its issue of notes as to keep up the amount of the circulation of the country, and not to allow it to be lessened by the export of gold?"

"Certainly; it is desirable that it should not be lessened, but rather that it should be increased under such circumstances, because the amount of the circulation out is no criterion of the wants of the country."

"How do you reconcile that with the perfect security of the convertibility of the Paper Currency?"

"That, I admit, it is difficult to do; but the question is, whether it is desirable to preserve what is called 'convertibility,' or to ruin the country."

"Then you think it may be necessary, in order not to ruin the country, to endanger the convertibility of the note?"

"For a period. I believe, if it were allowed, the gold would flow back shortly; but the law is impatient, and will not wait, and so the country is sacrificed."

There are few, it is thought, who will not agree in opinion with Mr Wright, that, it must be better for a time to endanger even the convertibility of the note than to sacrifice the country. It is truly astonishing what a cabalistic apprehension the Bullionists have succeeded in raising, regarding this same "convertibility," which, unquestionably for the credit of the country, it is exceedingly desirable, if possible, to maintain; although, it is very consoling to think it is a danger so remote, that we have not been even seriously threatened with it during the present century, except from mismanagement.

Mr Glyn's evidence is important on this point, p. 217:—

"In the years 1837 and 1839, when the amount of Bullion was reduced almost to its lowest figure, was there any discredit with respect to the convertibility of the bank note?"

"None whatever. It did not go to that extent, certainly, in 1839."

"Nor in 1825?"

"Nor in 1825?"

Should, however, an overwhelming necessity again unfortunately arise, it can only be necessary to have temporary recourse to the precedent of 1797; but, in the meantime, it is surely unwise to make restrictions calculated, not to avert, but to produce the calamity deprecated.

That all Monetary crises, arising from the scarcity of gold, have, formerly, been prevented, alleviated, or cured, by an extra issue, and not by a contraction of bank notes, according to the theory of the Bullionists, and the restrictions of the Act 1844.

In support of this proposition, it may suffice to explain how the three principal crises of 1797, 1825, and 1847, were got over.

It has been formerly mentioned that Mr Pitt met the first crisis of 1797 by suspending the obligation of the Bank of England to pay its notes in gold, and declaring them a legal tender, and that thereby, and by an issue of notes to meet the wants of the community, credit was restored, industry reanimated, and the country enabled to meet all the expenses of the war.

Of the dreadful crisis of 1825, it was stated by the late Lord Ashburton, "Although the Bank had no specie left, a large additional issue of notes was made, and about L.1,500,000 of those of L.1, which were accidentally found to be in existence, were circulated; *the relief was immediate*, the country received a circulating Currency, in which every body had entire confidence, *and the useless gold was returned to the bank* [that is gold which had been hoarded.] . . . While the Bullion in the bank was successively increased by this increase of paper, *in opposition to the theory of* 1844, *which presumes from such cause a necessary diminution.*" Also J. C. Glyn, Esq., p. 206, "The Bank of England, by what it did in 1825, did stop the crisis; and the same effect, I apprehend, would have followed in October 1847, if the Bank of England had had the same power then of issuing its notes without the restrictions of the Act of 1844."

With regard to the crisis of 1847, we are informed in the Report, p. 10, "That the difficulties and dangers of the case were such as to require a remedy, prompt, decisive, and effectual," and "that this remedy was sought and found in a departure from the restrictive principles of the Act of 1844," authorised by the celebrated letter there quoted, dated the 25th of October 1847, from Lord John Russell, as first Lord of the Treasury, and Sir Charles Wood, as Chancellor of the Exchequer, addressed to the Governor and Deputy-Governor of the Bank of England, recommending to the Directors, as the only remedy for the existing emergency, to infringe the law, by enlarging the amount of discounts and advances, and issues of notes, for which "Her Majesty's Government will be prepared to propose to Parliament, on its meeting, a Bill of Indemnity."

But the most striking exposure of the fallacy of the scheme of 1844 is to be found in the extraordinary fact, that the mere issuing of this letter had the effect, like Prospero's wand, of producing the desired results—of restoring credit and mercantile confidence, and allaying the Monetary convulsion *without any extra discounts or issue of notes.* The result is thus explained in the Report, page 11:—

"Mr Loyd states (1500), that 'the Bank did nothing under the letter; the amount of notes with the public was not increased. That power was not exercised. The letter was nevertheless actively and powerfully operative. 'The issue of the letter to a considerable degree relieved the Money market,' observes Mr Norman, 'by holding out to persons the certainty that they might get accommodation; whereas, before, they feared that they should not.' The amount of notes hoarded by bankers and commercial men was at once released. These notes have been estimated by Mr S. Gurney at about L.4,000,000; and this acted as effectually as if an additional issue on securities had been made by the bank.

"This effect is well described in the following extract from the evidence of Mr Glyn:—

"'It produced the same effect as if the Bank of England had made an issue, because it brought out the hoards of notes, and they went into circulation. It thereby added to the circulation of the country, and it removed the cause of the panic, which is stated to have arisen from the Act of 1844.' . . . . The salutary consequences of this step were recognised gratefully by almost every witness—even by those most favourable to the Act of 1844."

But we choose, it would appear, notwithstanding the experience of 1847, to court again a Monetary convulsion, and to risk a national bankruptcy, *with a plethora of capital*, rather than to remove restrictions which would allow of an expansion of the Currency to meet, and, as formerly, to overcome, the crisis; or even to lose the most trifling portion of that capital to procure a supply of gold to relieve the pressure and panic felt during the temporary efflux of Bullion. We have seen, since the last drain for gold commenced, week after week, vessel after vessel arrive, even from our own Colonies, with large supplies of the much-desired commodity, but which has been allowed to be purchased on foreign account—part, it is not improbable, by the emissaries of Russia,—because our Bullionist Scheme limits the price to be paid for it by the Bank of England to L.3, 17s. 9d. per ounce; and because the market price is a shade higher, the country is allowed to be threatened with a Monetary convulsion, to have a vast amount of property depreciated, and to have all the springs of its industry relaxed and weakened, if not destroyed, for want of a temporary supply of a few millions of gold, which it was entirely in our own power to have purchased, either before leaving the Colonies, or on its arrival in the mother country, and to have purchased which would not have occasioned a loss—if loss it can be so called—of more than a moderate broker's commission to the nation. This humbly appears to be an unsound policy, and that it can only be compared to the man who, as before observed, would be so foolish as, with a capital of L.10,000, to allow himself to be harassed and threatened with bankruptcy for want of L.20. It appears, indeed, as suicidal as if a starving nation were to refuse to purchase food after it rose above a certain price.

That by the division made by the Act of 1844 of the Bank of England into two separate departments, the Issue and the Banking, and the restrictions thereby imposed upon the latter, for the purpose of maintaining the convertibility of the bank note, the crisis of 1847 was not only aggravated, but the bank itself threatened with insolvency.

With reference to this proposition, and the illustrations above given

in support of the previous proposition, the uninitiated will be surprised to learn that, while the Bank of England, in the banking department, was, in 1847, in jeopardy of becoming bankrupt for want of gold to meet the convertibility of the note, the bank had, in its issue department, upwards of eight millions of treasure in their vaults. This seems, according to any common sense view, so extraordinarily anomalous a position of affairs, that readers will no doubt look for very unquestionable evidence in support of it. The fact, however, is placed beyond doubt by the Report, page 10, from which the following extract is made :—

" In reference to this state of things, the following important evidence was given by the Governor and Deputy-Governor of the Bank of England :—

" ' You had only L.1,600,000 in the Banking Department for the payment of your liabilities ?'—' Yes.'

" ' If any body had called upon you for anything beyond that million and a half, you must have stopped payment ?'—' Yes, we must.'

" ' At that time, if there had been no separation between the two departments, and the Bank of England had been conducted on its old principle, instead of being within one million and a half of stopping, there would have been very nearly L.8,500,000 of treasure in your vaults ?'—' We should have had L.8,500,000 in our vaults ?' "

But not only does the Act of 1844, by locking up large amounts of treasure uselessly in the vaults of the issue department, deprive the Directors of the Bank of England of any discretionary power or control over it —the Act actually prohibits them from strengthening the position of the bank by acquiring treasure in the shape of silver, beyond one-fifth of the amount of Bullion, although silver is the standard Currency generally on the Continent. They are thus prohibited from exchanging notes for silver, to the great detriment of the mercantile community.

The opinion of the Committee, and the evidence of the witnesses, seem equally unfavourable to this crotchet of the Bullionist Scheme, as stated, pages 41 and 42 of the Report.

In particular the following opinion of the Governor of the bank is quoted, page 41 :—

" I consider silver quite as available a means for the convertibility of the note as gold. We have been limited to keeping one-fifth of our amount of Bullion in silver. I think that limitation is too restricted. The silver can be readily sold in the market, and bank notes obtained for it. There is no merchandise that will sell easier than silver. By dropping a fraction in price, we could get bank notes out of the market immediately."

Mr Glyn, also, in his evidence, quoted page 42, enforces the unreasonableness of this restriction in respect to silver, and its peculiar hardship as regards the public :—

" Did you not hear of a case in which a merchant with a large amount of silver Bullion was unable to obtain advances upon it ?"—" Decidedly ; he could not either obtain an advance upon it or sell it. I could never see any reason why the bank should hold only the proportion of one-fifth silver. There can be no reason why the bank should not make advances upon Silver bullion, which they can always export to get sovereigns back, or remittances from Paris."

Having thus noticed the principal objections to the Act of 1844, little space comparatively seems to be required to explain, to use the words of the Report of the Lords' Committee,—

" The Effects of the Acts of 1844 and 1845 on Scotland and Ireland."

Under this heading of the Report, section 14, it is stated—" The Committee have felt it their duty to examine witnesses connected with Scotch and Irish Banks ;" and the results arrived at will be found stated in the following excerpts from the Report :—

" Any effects which the Act of 1844 has produced upon the London market must have had a corresponding influence on Scotland and Ireland. . . .

" As regarding the effects of the Act passed in 1845 for Scotland, if the obligation which it imposes on the banks of that country to keep a stock of gold corresponding in amount with the excess of circulation beyond the maximum fixed by the Banking Returns be intended to guard against excess of issue, the Committee apprehend any such danger to be imaginary. . . .

" The effect of the enactment has been, to render this capital to a certain degree unproductive, and to prevent the Scotch banks investing it profitably in securities. . . .

" As between bank and bank in Scotland, the system adopted for the regular exchange of their notes is a guarantee against any relative undue issue by separate banking establishments. . . .

" Supposing that there should ever arise the formidable danger of a discredit of the bank note—an event, however, which has never occurred —there are manifest advantages in the more general diffusion of gold coin, as a security for convertibility, in Scotland and Ireland, as well as in England. . . .

" No complaint seems to have arisen in respect to the operation of the Act of 1845 as regulating Irish banking."

That there should be no complaint regarding the operation of the Act of 1845 in Ireland, is not surprising, when it is considered that while the Scotch banks were restricted to a maximum issue of notes, equal to only *one-fourth of their paid-up capital*, all the banks in Ireland were authorised to issue notes *exceeding their paid-up capital*—in some cases, as previously explained, to the amount of *double their paid-up capital!* Ireland, indeed, seems to have been treated, in these restrictive measures, with a large measure of comparative favour, as well as the private bankers of England, who were authorised by the Act of 1844 to continue their previous average circulation of notes, *without any paid-up capital at all.*

This, however, is too much of a piece with the general scope of pecuniary legislation for Scotland, which is treated with less favour than the other portions of the empire, and has her complaints of inequality glossed over with some compliments to the moral worth and industrious quiet habits of the nation.

That serious injury has resulted to Scotland by the restrictive condi-

tions imposed by the Act of 1844 upon the Bank of England, there can be no doubt. "As the effects thereby produced on the London market must," as the Committee report, "have had a corresponding influence in Scotland and Ireland." But, what Scotland has principally to complain of is, the effect of the enactment of 1845, compelling the Scotch banks to keep gold uselessly in their coffers for any issue of notes required for the legitimate requirements of the country beyond the average circulation of 1845, in consequence of which they are obliged, either to diminish the amount of their discounts for the accommodation of the public; or to keep useless deposits of gold coin, and to make higher charges, which has been the case, for conducting banking business, in the shape of interests, discounts, and commissions.

By the published statutory account of the coin held by the several Banks of Issue in Scotland, for the four weeks ending 22d December 1855, it appears that the average amount of coin held by them was L.1,945,089. Now, there is here more than a million and a half (a large sum for Scotland), after making allowance for coin which might have been required by the banks had the Act of 1845 never passed, withdrawn by the Bullionist restrictions from the capital of the country, and rendered useless; and the penalty, in consequence, is a loss of corresponding interest and contraction of credit, which, alas! *all falls upon the industry of the country*; for, as the banks and moneyocracy have the whiphand, it is not to be supposed they will bear, or even share, the burden.

The uncalled for, unequal, and preposterously absurd effect of the enactment complained of, upon Scotch Banking, may be more particularly illustrated by giving one or two examples.

By the Act of 1845, one of the great Joint-Stock Banking Establishments of Scotland, consisting of 1546 partners, estimated by a witness examined before the Lords' Committee, as offering responsibility to the public of at least ten millions, and with a paid up capital of L.1,000,000, is prohibited from issuing notes to an amount exceeding L.136,657, unless upon holding gold coin in its coffers for any over issues; and, another Joint-Stock Bank, with 1289 partners, and a paid-up capital of L.1,000,000, is restricted to an authorised issue of L.72,921. Now, as by the account above referred to, it appears that the average circulation of the last-mentioned bank's notes, for the month ending December 22, 1855, was L.243,397, and the average deposit of coin for the same period, L.195,658, it is clear that the partners of the bank must either lose the interest on the last mentioned sum, or that the customers of the bank must make it up in the shape of increased interest, discounts, or commissions. In any way, whether it either diminishes the dividends of the partners, or cripples the industry of the community, it must be equally a wanton and uncalled for loss to the country.

But the Acts go farther; They prohibit any bank afterwards established, though it should possess a capital of ten millions, and a proprietary responsible to the public for five times that amount, or for any amount, issuing a single note. Thus laying the axe to the root of the future progress of the country, in its improvement, industry, and commercial enterprise, completely opposed to the boasted principles of our Free-trade system, creating a monopoly in favour of existing banks, and preventing what may be still farther required for the prosperity of the

country, an extension of free competition in money, as in other matters. It must be transparent, that, as the export-trade has nearly doubled since 1844, and as the internal trade of the country and population have also increased, the amount of Currency which may formerly have been commensurate with the requirements of the community, must now be quite inadequate for that purpose. The scope and intention of the Acts, however, appear unequivocally to be, that, except to the extent of allowing L.14,000,000 of notes to be issued by the Bank of England, and the limited average circulation of the English Country, and Scotch and Irish banks,—the circulation of the Country should be entirely metallic, or composed of notes representing gold in deposit, to expand or contract according to the increase or decrease of Bullion. In short, according to the common sense ordinary principles of the man of business, the Act is utterly incomprehensible.

To talk of any scheme by which the absolute convertibility of the bank note into gold, can be insured, is a fond fallacy. The bank note never was, and never can be, absolutely convertible into gold. This must be obvious to every one, when it is considered that the bank deposits, and the note circulation of Scotland, alone amounts to about forty millions; and for the comparatively far richer country of England, with six times the population of Scotland, two hundred millions, making in all, with say sixty millions for Ireland, three hundred millions, which, hypothetically,—but, it is believed, very near the truth,—would be the sum which banks would have to provide specie to meet, if every holder of bank notes and deposit-receipts were, from some insane universal panic, to make a simultaneous demand upon them for payment. This, of course, they could not do, with say twenty millions of gold, which, it is at present supposed, may be all the stock in possession of the several banks in England, Scotland, and Ireland. It is the good sense of the country alone which preserves the convertibility of the bank note, and the well grounded confidence entertained in the unquestionable responsibility of the great banking establishments of the kingdom, to meet all their obligations, and to fulfil the conventional promise to pay their notes in gold, *in all transactions where gold is required*. People do not require gold beyond this, and with very few exceptions do not wish it. To live, therefore, in paralysing apprehension of the danger of the discredit or inconvertibility of the bank note—a danger which has never yet occurred (for the failure of private bankers in England, and some ill-conducted banks there, cannot shake the credit of the general system)—is discreditable to the country; but to make enactments, as has been done by the Act 1844, which have the necessary tendency to create the very panic and evils which are deplored and deprecated, must be a suicidal policy.

One of the witnesses from Scotland, examined before the Lords' Committee [P. W. Kennedy, Esq., pages 386 and 387], gives the following evidence regarding Bank Reserves in Gold:—"Do you think it desirable that a system of banking should exist in Scotland, of which a great portion depends upon issues, which are not supported by even a seventh or a tenth of the amount in specie?"

"I can only refer to what has taken place in Scotland. There is no country in the world where confidence in the banking issues has been so unlimited, and where the losses have been so few, as they have been

hitherto in Scotland. I think it is only by looking back to the experience of the past that you can judge of the future, so far as Banking is concerned. . . .

"The contingency is so remote in the case of Scotland, I can hardly see it is absolutely necessary to compel us to hold specie for the purpose of meeting a danger that is so uncertain, and that has not hitherto arisen."

Can any one doubt the practical business soundness of this opinion. It would be considered pusillanimous in Britain, to live in apprehension of, and to adopt precautions for safety against violent shocks of earthquake, with which the country has never hitherto been visited. Is it not equally so to adopt precautions against any other danger as unlikely to occur.

The greatly predominant opinion in Scotland regarding the Acts, was well expressed by another eminent Scotch Banker examined before the Committee, who stated, page 392, that the restrictive conditions of both Acts, as to the circulation, are unnecessary, and ought not to have been imposed, and that they are altogether founded upon a wrong principle.

Sir Archibald Alison, another witness examined from Scotland, still more forcibly points out the utter inefficiency of the existing system to prevent violent Monetary panics, or to meet the evil, if it existed.—Pages 430 and 431.

"I think that the security of the notes in Scotland being mainly based upon the large amount of funded property which the banks hold, which is known to be immense, would be just as great without that additional amount of specie, provided the funds were not threatened. It would be different if there were any threat of applying a sponge to the funded debt.

"If any event should occur which seriously shook the credit of the funds, the demand from Scotland to meet the notes, if the reserve was only L.300,000, would be greater than if it was L.1,200,000. But I think that that evil is a remote and contingent evil, and one not to be put in comparison with the evils that exist now; and I do not see that it signifies where the Bullion, in such an event, is placed in the country, whether in London or Scotland, because the whole metallic resources of the country would be drained out of the banks in a few days.

"I think, that if a political catastrophe of so serious a kind occurred as to bring all the notes of the Scotch banks upon them to be paid, the banks would undoubtedly exhaust all their treasure, and be obliged to come upon London to meet the demand. But I do not think that such an occurrence as that could take place without a state of things that would destroy the credit of the whole country, and involve us all in universal ruin."

These views do not appear to have been dissented from in the Report of the Lords' Committee, which has been so largely referred to in this Essay: but, it is right to add that a Committee of the House of Commons, having been similarly occupied in 1848, on the motion of Mr Hume—"That in the opinion of this Committee, the laws for regulating the issue of bank notes, payable on demand, aggravated the commercial distress in England in 1847," the ayes stood 11, and the noes 13. The *Morning Herald*, however, observes, "By glancing over these names [of

which a list is given], we see that the majority is made up of those who were the actual framers of the Act of 1844, and as such ought never to have been upon the Committee."

Having traced the history and defects of our Monetary System, it becomes necessary, in conclusion, to consider remedial measures, and how the boon which, it is believed, is so eagerly desired by a great majority of the intelligent portion of the community, viz., an unfettered Currency, with adequate security to the public for payment of the bank notes, can best be obtained. For, if public opinion is to be judged of by the press—the best index—undoubtedly a verdict has been pronounced adverse to the existing system, and that perseverance alone can be necessary to insure the desired change.

Even the newspapers which continue to support the Bank Charter Act and Bullionist Theory, of which *The Times* in England, and, the *Scotsman* in Scotland, are the great organs, seem disposed to give it only a qualified support. Both these Journals have lately made admissions as to the Currency, inconsistent with the principle of the restrictive conditions of the Act 1844, for maintaining the absolute convertibility of the note. The *Scotsman* has admitted that, in buying or selling among ourselves, "we may use anything as a standard of value or Currency, in which all have confidence, no matter whether it be paper, gold, or cowries." And *The Times* has said,—"Supposing the circulation to be required solely for internal Currency, no necessity could exist for gold being held against any portion of it, a deposit of government stock, or the fact of its being received for duties, would at all times keep it from fluctuation in value."

Now, this is tantamount to the utmost demands of the anti-Bullionists, and the understood general desire of the country, all that is wanted being a *safe* Paper Currency, as the representative of value, in which the people could repose confidence, suitable for the internal transactions of the kingdom, admitting of expansion and contraction, according to the legitimate requirements of the trade, commerce, and population of the country, and conventionally convertible into gold on demand, whenever that might be found necessary for foreign transactions; for no one but a bigotted Bullionist can suppose that practically the whole circulating medium of a commercial state like Britain, should be composed of gold, or be absolutely convertible into specie; and it has further been shown, that it would be most wasteful, and a national loss if it were so. That obviously can never be practicable in this country, though it may be quite proper for carrying on foreign trade, that is, equalizing the balances of trade, or for foreign transactions, that bank notes should be conventionally payable in gold on demand. If Banks of Issue were constituted with sufficient paid-up capital, invested in Government stock, sufficient at all times to afford a safe margin for realizing the amount of their authorized circulation, this would unquestionably afford adequate security for the safety of the Currency; and, farther, if such banks had a numerous proprietary, with the addition, as in Scotland, of large paid-up capitals, and public boards of management, selected from among the partners, this might safely be considered, in addition, to give a sufficiently responsible security, and a well grounded assurance to the public for the safety, and safe investment of deposits, and repayment thereof when

required, as far as human foresight and precaution can do so. The importance of this last element in the constitution of Banks of Deposit, must be very apparent, when it is considered that, if the deposits of England and Ireland, are only assumed to stand in the same relative proportions to the Currency, as they do in Scotland, the aggregate deposits of the United Kingdom will amount to about L.300,000,000, or more than seven times the amount of the Currency! That the safety of deposits is a more important consideration, in any sound system of banking, than even that of the Currency itself, the past history of banking failures too abundantly testifies. For instance, the last and recently reported failure of a small private bank at Lichfield, having only one remaining partner, affords a striking practical illustration of this, as it is stated that, while the note circulation of the bank had dwindled to L.8000, its liabilities exceeded L.200,000. There appears to be no reason to doubt that banks constituted, as above suggested, acting under the wholesome rigour of the law, in the promise to pay, would exercise a provident care that their issues and responsibilities did not exceed their available capital and resources, conscious that if they did so, the mutual exchange of notes would soon detect and bring to light their imprudence, and involve them in its legal, if not penal consequences. It has been shown, that neither the Bank of England nor the chartered or Joint-Stock Banks, with credit above all suspicion, could pay their notes and deposit-receipts, if a simultaneous demand were to be made upon them for payment in gold. This is notorious; therefore to enact Monetary laws, with restrictive conditions, upon the principle of maintaining, at all times, an absolutely convertible Paper Currency, when that is impossible, is a practical blunder.

If the late Sir Robert Peel, in place of allowing himself to be mystified by the Bullionist theory, had only acted in 1819, upon "the principles of the practical man of business," and required adequate security from all Banks of Issue, can there be any doubt that *much* of the ruin and distress deplored by him when he introduced his abortive scheme of 1844, would have been prevented. The following extract is made from the speech with which he introduced that measure to parliament:—

"When I call to mind the danger to which the Bank of England has been exposed, the various effects of a sudden change from an over-abundant to a contracted circulation, the reckless speculations of some of the Joint-Stock Banks, the losses entailed on their shareholders, the insolvency of so many private banks, the miserable amount of the dividends which have, in many cases, been paid, the ruin inflicted on innocent creditors, the shock to public and private credit, then, indeed, I rejoice, on public grounds, in the hope that the wisdom of parliament will, at length, devise measures which shall inspire just confidence *in the medium of exchange*, shall put a check on improvident speculation, and shall ensure, so far as legislation can ensure, the just reward of industry, and the legitimate profit of commercial enterprise, conducted with integrity, and controlled by provident calculation."

In place, however, of conferring the benefits intended by the Act of 1844, it is now generally admitted to have aggravated, if it did not produce, in 1847, as it is now doing, the very calamities which it was intended to prevent.

Sir Robert Peel, it has been seen, refers to the insolvency of private

banks in England as the principal reason for urging the scheme of 1844. Now, the same reason was assigned in support of the Act 1819, when it was stated that from 1797 to 1818, not fewer than 230 commissions of bankruptcy had been issued against country banks in England and Wales, producing misery and wretchedness, which, perhaps, never had been exceeded. The runs on the country banks, however, arose from suspicions, but too well founded, that they were not solvent; for people were satisfied when they got Bank of England paper, the credit of which was beyond suspicion. It was the same in Scotland where the credit of the chartered and Joint-Stock Banks was equally beyond suspicion.

Private Banks of Issue and deposit were never in much favour in Scotland, and have been now entirely abandoned. There are only chartered and Joint-Stock Banks holding large amounts of paid-up capital, with a numerously responsible proprietary, and boards of management appointed by the partners. It was stated by a witness in the evidence given before the Lords' Committee, that he supposed "there are half a dozen banks in Scotland, the proprietors of which are worth ten millions."

"Unity is strength," and "in the multitude of counsellors there is safety." This may be stated as the text and principle of the constitution of the Scotch banks, and upon which their security and popularity depends. The public rely with confidence upon the guarantee afforded by their large paid-up capital, the unquestionable responsibility of the partners, and the control of boards of directors, selected from the most intelligent of the partners, and sharing with them in the responsibilities of the bank, for preventing, as far as human sagacity and foresight can do, the danger of departure from the legitimate objects of banking, or of making reckless advances, even of deposited money, upon speculative investments, an error, to use no harsher phrase, which experience has proved, private banks composed of one or a few individuals, all relations or intimate friends, without any check upon their management, except their own discretion, have so frequently committed; and the whole history of private banking, past and recent, unfortunately too abundantly confirms the truth of this observation.

Whether it might be possible or expedient to adopt this system of Joint Stock Banks *exclusively* throughout England, as has been done in Scotland, so as to make it commensurate with the requirements of the trade, commerce, and population of so much greater a country, must remain with the English nation to decide, after its inhabitants have been made fully acquainted with the Scotch system, and the benefits which it has conferred on that part of the kingdom, of which it has been truly said, "There is no country in the world where confidence in the banking issues have been so unlimited, and where the losses have been so few, as they have been hitherto in Scotland." It has completely relieved that country from the disasters which have been occasioned in England by the insolvency of private banks, which, there can be no doubt, have been the bane of the English Monetary System, and for which the futile enactments of the Act 1844, rendered either more stringent or relaxed, can never afford an effectual constitutional remedy.

We have previously referred to the limited support accorded to the Bullionist Scheme by the *Newspaper Press*. In Scotland, this has been

extremely limited indeed; so far as known, it has been confined to the *Scotsman* newspaper, while many very able articles adverse to it, have appeared in the other leading Scotch journals. The following extracts are made from a series of articles which recently appeared in the *Scotsman*, and since republished in a small pamphlet, upon which it is considered proper to offer a few comments. It is said, p. 17,—"We shall now advert to the facts on which the Edinburgh Chamber of Commerce found their petition. They inform Lord Palmerston that—

'Your memorialists strenuously opposed the passing of the Act 1844, as an unsafe and unwise interference with the business of banking, and directly calculated in the event of *a scarcity of food, war, or any other emergency requiring an export of gold*, to give rise to commercial embarrassments and arousing panics, and when, in 1847, *these actually began to appear, they denounced the Act as the cause*, and the Government was at length constrained to suspend its operation, thus substantially acknowledging the correctness of the views of your memorialists.'

"It would be difficult to condense into the same space a greater collection of fallacies and misstatements than this paragraph contains."

It is submitted, however, that in place of containing fallacies and misstatements, the paragraph cited most accurately condenses, and points out both the erroneous principle of the Act 1844, as well as its deplorable consequences.

The drain of gold and the monetary convulsion in 1847, was principally, as is well known and admitted, occasioned by the large export of the precious metals to pay for food, absolutely required in consequence of the failure of the crop of 1846. The lowest sum set down on this account, in the Report, was L.9,000,000, while one witness, G. W. Norman, Esq., an eminent London merchant, and a Director of the Bank of England from 1821, said, p. 309, "The quantity of corn imported had been valued at L.30,000,000 sterling, and that must have been paid for somehow or other. I have no doubt that to those countries from which we chiefly imported corn, a very considerable increased quantity of our own productions were sent; but that would have left a large balance, which must have been liquidated by the export of gold, or by the sale of securities, or by recall of credits, or an influx of foreign capital, or in some other way."

Now, this was a calamity that, of course, till the autumn of 1846, could not have been foreseen. The food required was indispensable, and self-preservation therefore rendered it imperative to export the national stock of gold, so far as necessary to purchase it; because such an unlooked for and unexpected drain of gold could not be expected to be met from the current profits or balances of the export trade, however favourable these might be for this country. It is most important in the present discussion to keep carefully in view, that the drain of gold was not occasioned by overtrading, but by the potato blight and failure of the crop in 1846; because the remedy required in the one case might be altogether different from what was required in the other. Not, however, attending to this essential distinction, the *Scotsman* goes on in a sneering way to impugn the views of the Chamber, and justify the operation of the Act 1844, in a very ingenious and able argument in vindication of the contraction of credit when the drain of gold is occasioned by overtrading, but which is totally irrelevant and inapplicable, when the efflux arises

from a fortuitous cause, such as a deficiency of food, war, etc., in which cases an expansion rather than a contraction of credit and Currency is obviously required to maintain the trade and commerce of the country. If, for instance, a drain of gold arises from such fortuitous causes *when trade is good*, it must, the anti-bullionists contend, be an unsound policy to contract the Currency and cripple the productive industry of the country, as it can only be from accumulations arising from maintaining unimpaired a prosperous trade that the loss occasioned to the capital of the country can be replaced. It is in this way, and in this way only, the gold will certainly, as on all former occasions, flow back to the country. But the Bullionists can see no exception to their pet scheme. They hold it to be infallible alike in all cases, and hence, when emergencies, such as have been explained, forming exceptions to ordinary rules, arise, its operation produces ruinous results to the country.

But farther, the *Scotsman* not only inconclusively assails the Chamber, for what was truly and justly said—it asserts what was not only never said, but it is believed never even thought—thus, page 19:—

"The foreigners declined to accept bank notes, but were willing to accept gold in payment. The Chamber, in their wisdom, said, 'No, do not give the merchants gold for the notes, with which to pay their foreign debts.' What then was to be done?" . . .

Again, "Do they mean that we should swindle the foreigners, repudiate, and not pay our debts?"

Nothing of the kind. The Chamber never questioned the expediency of maintaining the convertibility of the bank note; or wished to "swindle" the foreigners out of payment of the food purchased to save the country from starvation; and it must augur badly for any question that requires to be argued on such assumptions.

What the Chamber objects to is clearly and distinctly stated, viz., "The unsafe and unwise interference with the business of banking," introduced by the Act, 1844, which, in place of leaving the eminent professional bankers of the country, whose profound attention had been devoted to banking business, to exercise a sound discretion in regulating the Currency, and causing it to expand or contract according to the requirements of the country, devises a Parliamentary machine to think and act for them; and which, of course, is incapable of distinguishing whether an export of Bullion is occasioned by fortuitous causes, or arises from an adverse and unprofitable trade; and which, therefore, cannot be adapted for the ever changing state of human affairs. This, therefore, is considered the radical Bullionist fallacy of 1844.

The Currency is merely, as previously explained, the representative of the value of so much of the capital of the country used as a medium for facilitating the exchange of that capital, and its amount should therefore always depend upon the legitimate requirements of the trade, commerce, and population of the kingdom. It follows, therefore, that if the efflux of gold, which is exported, not as coin or currency, but as a commodity of recognized value in foreign countries, is occasioned by overtrading, it is expedient to apply the bank screw to correct the exchanges, and restore trade to a healthy state. But, on the other hand, if the drain of gold arises in consequence of fortuitous causes, such as an unusual scarcity of food or war, while trade at home and abroad is in a prosperous state, the anti-bullionists maintain, that to contract the Currency,

and cripple trade and industry, is literally killing the goose that lays the golden eggs.

The *Scotsman*, also, endeavours to intimidate the public against the views of the Chamber, by descanting on the experience and failures of American banking; but he here again falls into the error of not discriminating that there is no parallel between the circumstances of the two countries—that America is a young go-a-head State, with a comparatively limited capital, while Great Britain is an old kingdom with a plethora of capital; and particularly, that in America, they had neither a scarcity of bread-stuffs, or war, to derange their Currency.

But what says the Bullionist writer in vindication of the Act 1844, which, in 1847, raised the rate of interest, disorganised the money market, depreciated property, involved merchants in difficulties, and led to the bankruptcies, distress, and ruin, which every where prevailed. We are told, page 24:—

"That the dark picture of commercial ruin and desolation of 1847-8 had a bright side, and we now solicit attention to it. The great sufferers, on that occasion, were the improvident persons who had bought or manufactured goods, or purchased shares or other property beyond their means of paying for them, and the creditors who had imprudently trusted them. When the Directors of the Bank of England paid gold for their notes, they were very cautious in re-issuing them, to prevent their being immediately issued again for more gold. The country bankers, who also were bound to pay in gold, were forced to follow their example, and the consequence was *a great diminution of the Currency*. This, and the forced sales following on bankruptcies, produced a rapid fall in the prices of all commodities held by the debtor class. Every one, however, who had avoided speculative entanglements, and had prudently husbanded his capital, now entered the markets with great advantage, *and bought shares and goods, mills, houses, and machinery, at very low prices*." . . . And it is added, "they had the benefit of a rise when commercial prosperity returned." . . .

Gold, as it returned to the country, page 26, "was purchased by the Bank of England, and paid for in their notes. These, being needed for a now reviving domestic trade, were absorbed into the circulation of the country; prices gradually rose, and commercial prosperity returned."

The bright side of the sad picture, as above sketched by a Bullionist pencil, appears to be, that men, who still had the command of money, were enabled to purchase at low prices, not only the property of the bankrupt victims of the Act 1844, but of merchants who, according to the evidence, cited *ante*, page 9—could pay 60s. in the pound, and of houses of great responsibility and respectability, who, being disappointed of getting their accustomed accommodation from the banks to meet their engagements, were obliged to make sacrifices which brought many of them to the verge of bankruptcy.

If then, it is indisputable, and indeed admitted, that it was the contraction of the Currency, in consequence of the restrictive conditions of the Act 1844, which alone produced the wide-spread bankruptcies and rapid fall in prices which occurred in 1844, so that "*goods, mills, houses, and machinery, were purchased at very low prices*," it must be equally clear, that if this contraction of the currency had not taken place, this ruinous

state of matters, and temporary depreciation of property would not have occurred. Is it then to be tolerated that an Act shall be allowed to continue in force, which experience has proved must, on every occasion when a temporary drain of gold takes place, although arising from fortuitous and temporary causes, such as have been explained, contract the Currency and disorganise the representative value of the capital of the country, to the ruin of its trade and industry, because it may be the interest of certain monied classes to support it; or, because, it may be in conformity to what are erroneously held to be the inflexible and inexorable principles of the Bullionist theory.

The injurious tendency of this Act, however, may, perhaps, be made still more intelligible by the following explanation. The depreciation and sacrifices of property of all descriptions and profits, during the panic of 1847, is estimated to have exceeded L.250,000,000; but it is particularly to be noticed, that the property had lost nothing of its intrinsic value. It was only temporarily depreciated, or *had lost its representative value*, during the contraction of the Currency, for it rose again as soon as the usual circulation was restored. It was of the same value in 1848 that it was in 1846. It was only during 1847, and under the evil influence of the restrictive conditions of the Act 1844, that it was so depreciated. In the meantime, however, and while this "dark picture of commercial ruin and desolation" lasted. the property so sacrificed had passed from the rightful owners, and so had occasioned blighting ruin and misery to tens of thousands of worthy industrious citizens and their dependents, who thus lost their social position and power to contribute to their own and the prosperity of the community.

Now, if this L.250,000,000 had, by some great calamity, been lost to the unfortunate owners, it would have been their duty, and the duty of the nation to have bowed in humble submission to the dispensation. But surely, a great and enlightened empire will not continue to subject itself to "the danger of monetary convulsions, ruinous to its trade and industry, and even national bankruptcy, from a blind adherence, or tame submission, to a theoretic Bullionist scheme, which has completely falsified the predictions of its projectors.

It is said, page 36, "The Scotch banks are included in the Act 1844." Now they, and the people of Scotland, are certainly affected, consequently, by that Act, as has been before fully explained, but neither the Scotch or Irish Banks are embraced in that Bill, as a separate Act was passed in 1845, applicable to the Scotch and Irish Banks, in which are embodied the provisions of which Scotland has particularly to complain, such as the provision for allowing the then existing banks only, a fixed average circulation of notes, and obliging them to keep a large amount of gold uselessly in their coffers, for what is termed over-issues. This, however, is a slip not very material, but it may warrant the remark that those who affect to speak *ex cathedra* on any question, might be expected to be conversant with its details.

Such may be taken as a sample of the pleading of the leading Bullionist organ in Scotland—*ex uno disce omnes*.

The following is the substance of a scheme, said to be extensively approved of in England, for the purpose of accomplishing Monetary Reform:—

"The first proposition refers to imperial money, to be issued by the Crown with the sanction of Parliament. Its amount will be limited, from year to year, to the annual amount of taxation. It will derive its value from the authority of the State which calls it into existence, and be declared legal tender. In this money the Crown will pay its debts and receive its taxes. If any person wishes to buy gold with this money, he will be able to do so by purchasing that commodity at its market price.

"The second proposition relates to commercial money, which will be issued by private banks giving security to Government. The issues of these establishments will be limited to two-thirds or three-fourths of the securities lodged. Government will fabricate their notes, which will bear a distinctive die, and they will be declared legal tender. In the event of bankruptcy, Government will be empowered to sell the securities, so that every holder of the notes will be guaranteed twenty shillings in the pound.

"Imperial and commercial money are designed exclusively for domestic purposes, and their main excellence will consist in the being *valueless abroad*, while they are *valuable at home*. The one, as the instrument of taxation, the other, as the instrument of internal trade, both would constantly remain among ourselves, uninterruptedly discharging the functions for which they were created. The bank 'screw' would cease to exist, and prices would rule at an equable rate. Panics would be at an end, for our legal tender would never be exported.

"Under this system gold would be restored to its natural character as a commodity, and, in common with every other commodity, would find its market price in imperial or commercial money under the law of supply and demand. It would no longer be fixed in price, as it is now, because it would no longer bear a moneyed denomination. Not an ounce of gold would be needed in any of our home transactions. By being thus economised, we should always have an abundance of gold to pay any adverse balance of foreign trade, to purchase bread-stuffs in time of scarcity, and to grant foreign loans in time of war."

Such is the substance of a plan which it is understood is supported by an extensively organised party in England. There seems no reason to doubt that it would provide for a *safe* and sufficiently *expansive Currency*, for the requirements of England; but then, it does not humbly appear necessarily to insure a system of banking, which would confer a sufficiently reliable guarantee and assurance to the public for the safe administration and repayment of Deposits, which might, therefore, still remain a desideratum in the system of English banking. Whether, however, that is a defect which the Legislature is able, and can be called upon to provide a remedy, or whether it must be left to the English people themselves to do so by supporting only banks securely established, and conducted upon safe and sound joint-stock principles, no opinion will be here ventured. The foregoing observations are only suggestively offered on that head, and submitted with great deference to the consideration of those who may honour these pages with a perusal.

But whatever difficulties may surround the question of Monetary Reform, as regards England, it appears to be plain sailing in respect to Scotland.

The safety and admirable adaptation of the Scotch Banking System,

except in so far as it has been interfered with by the needless and pernicious restrictive conditions of the Acts 1844-45, to meet the requirements of the country, are acknowledged on all hands.

Now, it surely cannot be disputed that it must be impolitic to make experiments upon, and alter a scheme which has every way worked well, and *completely satisfied the wants and wishes of the community interested in it.*

If so, it follows that a *total repeal* of the Act 1845, should be at once craved by the people of Scotland, and conceded by the Imperial Parliament as a boon which, in justice, is due to Scotland; and which the Scotch Members of Parliament, if they represent the wishes and opinions of the majority of their constituents on this question, may be expected zealously and patriotically to support. But unless also, those who are convinced of the expediency and necessity of a reversal or reform of the existing Monetary System, use human means, and WISE MEANS too, to bring about that result — by individual and combined exertion, and rousing and enlightening public opinion—this consummation cannot reasonably be expected.

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